University of Illinois at Chicago Preliminary Overview of Presentation: A Market for Long-Term Care Beds in Illinois

Study questions guiding our work

- Examine if a bed market can improve utilization of existing beds
- The impact of a bed market on current LTC residents and the community, particularly the underserved
- What are the best ways to structure a bed market?
- What are potential unintended consequences?
- Can a bed market serve to infuse capital in LTC institutions?

Theoretical justification for a bed market

- Two viewpoints on current regulatory environment
    - The public interest justification for status quo is based upon the belief that unregulated competition will result in the construction of unnecessary facilities and raise the cost of providing care for state-funded Medicaid patients.
    - The special interest theory of regulation suggests that regulatory environment provide a mechanism for barring new entry into a cartelized industry. Indeed, by controlling entry, the state provides nursing homes with a buffer from competition.
- A market for existing bed licenses, depending on how structured, can provide a solution.

Overview of Approach:

- Use Ohio experience in regression models to create a predictive model of buy and sell behavior
- Apply this predictive model to Illinois, adjusting for key ways in which Illinois nursing homes and populations differ from Ohio's
- Estimate the probability of specific facility types to buy or sell beds (and how many) annually

Data

- Online Survey, Certification and Reporting (OSCAR) data, 1996-2012, for nursing home characteristics
- Ohio transactions data describing nursing home bed sales and purchases, prices, quantities under the buy-and-sell program.
- Area Resource File data (selected years) for county-level population characteristics.

Key Descriptive Results

- Variation in nursing home occupancy rates is 59% higher in Illinois than in Ohio currently. This is consistent with a better distribution of bed supply in Ohio after more than a decade of policies allowing the purchase and sale of beds.

- In an average year, only 1-2% of nursing homes in Ohio are engaged in buying beds and another 1-2% in selling (not always equal because one buyer may buy from multiple facilities). There is no activity for the vast majority of nursing homes on average.

Key Predictions for Illinois

After adjusting the model to reflect Illinois characteristics, we predict a slightly lower propensity to buy beds and a slightly higher propensity to sell beds in Illinois than in Ohio. This would likely mean that the price per bed would be slightly lower in Illinois.

Most significant predictors of net change in number of beds due to buy/sell activity:

- Predicted to increase beds:
  - Very high occupancy
  - High percent private-pay
  - For-profits and nonprofits relative to government facilities; for-profit increase larger
- Predicted to decrease beds:
  - Low occupancy
  - High percent Medicaid
  - Hospital-based facilities
  - Facilities with more deficiencies (lower quality)
  - Larger facilities

Based on results of the predictive model, we predict that beds would most likely flow from lower-quality high-Medicaid facilities in poorer areas to facilities with more private-pay residents and higher quality (as measured by deficiencies) in more affluent areas. Low occupancy plays a large role in the probability of selling, so this would not necessarily lead to access problems in poorer areas. The desire to add beds seems to be driven in part by occupancy constraints, but to a lesser degree than the desire to sell.